

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-005  
FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT  
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006

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AUDIT REPORT NUMBER

#08-005

7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA

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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Courtney Boyles, President  
Board of Directors  
7th DAA, Monterey County Fair  
2004 Fairground Road  
Monterey, CA 93940-5260

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 7th District Agricultural Association (DAA), Monterey County Fair, Monterey, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 7th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 6 to the financial statements, the 7th DAA incorrectly accounted for the lease of a forklift as an operating lease instead of a capital lease. Therefore, the 7th DAA incorrectly expensed each monthly payment. In our opinion, the 7th DAA should establish an asset and long-term liability to conform to the accounting principles generally accepted in the United States of America since the lease agreement meets one of the criteria set forth in the Statement of Financial Accounting Standards No. 13 described in Note 6.

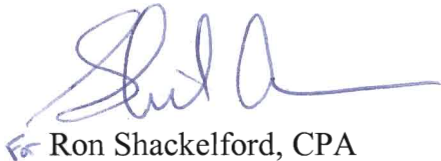
In our opinion, except for the effects of recording the lease as an operating lease rather than a capital lease as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the 7th DAA, Monterey County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes



in net resources in the years ended in conformity with the basis of accounting described in Note 1 to the financial statements.

The 7th DAA, Monterey County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-005, on the 7th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 7th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in blue ink, appearing to read 'Ron Shackelford', with a long horizontal flourish extending to the right.

For Ron Shackelford, CPA  
Chief, Audit Office

June 27, 2008

**7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION  
December 31, 2007 and 2006**

	<b>Account Number</b>	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>			
Cash in Bank	111 - 117	\$ 490,468	\$ 388,996
Accounts Receivable, Net	131	17,933	35,158
Deferred Charges	143	65	-
Construction in Progress	190	92,091	20,000
Land	191	31,340	31,340
Buildings and Improvements, Net	192	1,785,455	1,646,872
Equipment, Net	193	25,659	35,927
<b>TOTAL ASSETS</b>		<b><u>2,443,011</u></b>	<b><u>2,158,293</u></b>
<b>LIABILITIES AND NET RESOURCES</b>			
<b>Liabilities and Other Credits</b>			
Accounts Payable	211-212	229,889	126,994
Taxes Payable	221 - 226	8,950	7,789
Deferred Income	228	30,884	10,787
Guaranteed Deposits	241	-	30,881
Compensated Absences Liability	245	99,011	71,271
<b>Total Liabilities and Other Credits</b>		<b><u>368,734</u></b>	<b><u>247,722</u></b>
<b>Net Resources</b>			
Reserve for Junior Livestock Auction	251	21,166	43,364
Net Resources - Operations	291	118,565	129,864
Net Resources - Capital Assets, Less Related Debt	291.1	1,934,546	1,737,343
<b>Total Net Resources Available</b>		<b><u>2,074,277</u></b>	<b><u>1,910,571</u></b>
<b>TOTAL LIABILITIES AND NET RESOURCES</b>		<b><u>\$ 2,443,011</u></b>	<b><u>\$ 2,158,293</u></b>

**7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY  
Years Ended December 31, 2007 and 2006

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
<b>REVENUE</b>			
State Apportionments	312	\$ 105,000	\$ 105,000
Other F&E Project Funds	318	98,594	114,504
Contributions from Other Government Entities	340	28,555	-
Admissions	410	275,569	286,765
Commercial Space	415	53,413	54,464
Carnival	421	119,666	95,591
Food Concessions	422	86,694	80,010
Exhibits	430	18,404	17,644
Satellite Wagering	450	444,644	449,104
Miscellaneous Fair	470	135,825	120,161
JLA - Revenue	476	65,843	54,876
Non-Fair Revenue	480	780,285	582,039
Prior Year Adjustment	490	65,455	1,860
Other Revenue	495	25,004	38,681
<b>Total Revenue</b>		<u><b>2,302,951</b></u>	<u><b>2,000,699</b></u>
<b>EXPENSES</b>			
Administration (Note 7)	500	382,489	899,681
Maintenance and Operations	520	556,161	506,077
Publicity	540	136,637	118,591
Attendance	560	13,769	15,408
Miscellaneous Fair	570	94,779	89,079
JLA - Expense	576	88,041	50,239
Premiums	580	37,580	36,268
Exhibits	630	186,174	178,897
Satellite Wagering Expense	650	304,085	277,205
Attractions - Fairtime	660	194,726	174,947
Equipment	723	13,560	19,598
Prior Year Adjustments	800	11,617	(6,362)
Cash Over/Short	850	7,229	804
Depreciation Expense	900	112,398	103,391
Other Oper Expense	945	-	1,990
Ag Bldg. Repairs and Maint	950	-	7,286
<b>Total Expenses</b>		<u><b>2,139,245</b></u>	<u><b>2,473,099</b></u>
<b>RESOURCES</b>			
Net Change - Income / (Loss)		163,706	(472,400)
Resources Available, January 1		1,910,571	2,382,971
<b>Resources Available, December 31</b>		<u><b>\$ 2,074,277</b></u>	<u><b>\$ 1,910,571</b></u>

**7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS  
Years Ended December 31, 2007 and 2006**

	<u><b>2007</b></u>	<u><b>2006</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 163,706	\$ (472,400)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	17,225	(9,194)
(Increase) Decrease in Other Assets	(65)	-
Increase (Decrease) in Accounts Payable	102,895	66,745
Increase (Decrease) in Taxes Payable	1,162	(1,540)
Increase (Decrease) in Deferred Income	20,097	10,788
Increase (Decrease) in Guaranteed Deposits	(30,881)	11,410
Increase (Decrease) in Compensated Absence Liability	27,739	16,386
Total Adjustments	<u>138,172</u>	<u>94,595</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><b>301,878</b></u>	<u><b>(377,805)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
(Increase) Decrease in Construction in Progress	(72,091)	(20,000)
(Increase) Decrease in Buildings & Improvements, Net	(138,583)	(231,683)
(Increase) Decrease in Equipment, Net	<u>10,268</u>	<u>(8,214)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u><b>(200,406)</b></u>	<u><b>(259,897)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Financing Activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>101,472</b>	<b>(637,702)</b>
Cash at Beginning of Year	388,996	1,026,698
<b>CASH AT END OF YEAR</b>	<u><u><b>\$ 490,468</b></u></u>	<u><u><b>\$ 388,996</b></u></u>



**7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA**

**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007 and 2006

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization - The 7th District Agricultural Association (DAA) was formed on July 7, 1936, for the purpose of sponsoring, managing, and conducting the Monterey County Fair each year in Monterey, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

**NOTE 2      CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 5,181	\$ 941
Cash in Bank - Operating	16,452	(9,139)
Cash in Bank - Premium	2,478	(8,684)
Cash in Bank - Payroll	(12,464)	8,750
Cash in Bank - JLA	142,065	33,601
Cash in Bank - LAIF	<u>336,756</u>	<u>363,527</u>
 Total Cash and Cash Equivalents	 <u>\$ 490,468</u>	 <u>\$ 388,996</u>

**NOTE 3      ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 20,955	\$ 29,137
Accounts Receivable - JLA	5,070	12,487
Allowance for Doubtful Accounts	<u>(8,092)</u>	<u>(6,466)</u>
 Accounts Receivable - Net	 <u>\$ 17,933</u>	 <u>\$ 35,158</u>

**NOTE 4      PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$4,336,914	\$4,049,032
Less: Accumulated Depreciation	<u>(2,551,459)</u>	<u>(2,402,160)</u>
Building & Improvements - Net	<u>\$1,785,455</u>	<u>\$1,646,872</u>

Equipment	\$ 254,544	\$ 248,644
Less: Accumulated Depreciation	<u>(228,885)</u>	<u>(212,717)</u>
Equipment - Net	<u>\$ 25,659</u>	<u>\$ 35,927</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **CAPITAL LEASE**

In 2007, the 7th DAA entered into a lease agreement with a private company for a forklift. The 7th DAA accounted for the lease agreement as an operating lease, thereby each monthly payment of \$609 was incorrectly expensed. According to Statement of Financial Accounting Standards No. 13, a lease is considered a capital lease if it meets one of the four criteria: (i) transfer of ownership, (ii) bargain purchase option, (iii) present value of the minimum lease payments

equal or greater than 90% of the fair market value of the leased property or (iv) the lease term is 75% or more of the estimated economic life of the leased property. The lease agreement indicates a lease term of 48 months. In general, the economic life for equipment, i.e. forklift, is five years. Since the lease term is 80% of the economic life, the forklift qualifies as a capital lease. Therefore, the 7th DAA should capitalize the forklift in Account #193, Equipment, and depreciate it accordingly. Furthermore, the 7th DAA did not recognize a long-term liability in Account #250, Long-Term Debt.

NOTE 7      **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA**

**REPORT DISTRIBUTION**

<b><u>Number</u></b>	<b><u>Recipient</u></b>
1	President, 7th DAA Board of Directors
1	Chief Executive Officer, 7th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA

MANAGEMENT REPORT #08-005

YEAR ENDED DECEMBER 31, 2007

7TH DISTRICT AGRICULTURAL ASSOCIATION  
MONTEREY COUNTY FAIR  
MONTEREY, CALIFORNIA

MANAGEMENT REPORT  
YEAR ENDED DECEMBER 31, 2007

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AUDIT STAFF

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Audit Chief  
Assistant Audit Chief  
Audit Manager  
Auditor

MANAGEMENT REPORT NUMBER  
#08-005



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CALIFORNIA DEPARTMENT OF  
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Courtney Boyles, President  
Board of Directors  
7th DAA, Monterey County Fair  
2004 Fairground Road  
Monterey, CA 93940-5260

In planning and performing our audit of the financial statements of the 7th District Agricultural Association (DAA), Monterey County Fair, Monterey, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Monterey County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 7th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 7th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 7th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 7th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 7th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 7th DAA and compliance with state laws and regulations, we identified ten areas with reportable conditions that are considered weaknesses in the Fair's operations: general ledger, litigation settlement, accrued liabilities, accounts receivable, FLSA recreational exemption, cash accounts, accounting for fixed assets, salary overpayment, multi-year contracts, and the junior livestock auction. We have provided 18 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 7th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

## REPORTABLE CONDITIONS

### GENERAL LEDGER

In reviewing the financial transactions of the Fair, we noted several deficiencies pertaining to the Fair's accounting records. The following is a summary of the detailed findings that are presented throughout this report:

- a. The Fair is recording transactions using the cash basis. Although the Accounting Procedures Manual (APM) recognizes that some fairs still use this method, it states that, at the end of the year, all anticipated transactions must be accrued, that is, income that has been earned but not yet received (Accounts Receivable), and expenses that have been incurred but not yet paid (Accounts Payable). The Fair did not make the necessary accruals at year-end as specified in the APM and as required by generally accepted accounting principles (GAAP). These findings are further detailed in this report under the captions of Cash Accounts, Fixed Assets, Litigation Settlement, Accrued Liabilities, and Accounts Receivable.
- b. Chapter 7 of the APM explains in detail the preparation of the Statement of Operations (STOP) and the process of closing the books. It specifies each group of accounts be reviewed to ascertain whether the backup detail equals the amount in the general ledger. The Fair did not perform this reconciliation process for asset and liability accounts, as evidenced in this report under the captions of Cash Accounts, and Accrued Liabilities. Material account balances were not reconciled before closing the books and preparing the Statement of Operations (STOP).

### *Recommendations*

1. *The Fair should accrue transactions at the end of the year for income that has been earned but not yet received, and for expenses that have been incurred but not yet paid, as required by GAAP and as specified in the APM.*
2. *The Fair should review asset and liability accounts, and reconcile the account details to the general ledger balances at the end of the year prior to closing the books and before preparing the Statement of Operations.*

### LITIGATION SETTLEMENT

Based on the 2006 lawsuit settlement mentioned in our prior year audit, the Fair incurred legal service charges from the California State Attorney General's Office. As of year-end 2007, the Fair did not accrue approximately \$24,362 as accounts payable. GAAP and the accrual basis of accounting require the recognition of expenses within the period incurred. If expenses have been incurred, but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing

the accounting records and preparing the annual Statement of Operations. This was a prior year finding.

*Recommendation*

3. *The Fair must comply with GAAP and ensure all material liabilities are accrued at year-end. The omission of material liabilities overstates the Fair's net resources and could mislead the users of the Fair's financial statements. Accounts payable at year-end should include all known payables, including estimates of liabilities, even though billings have not yet been received.*

### **ACCRUED LIABILITIES**

The liability accounts were reviewed and the following is noted:

- a. Accounts #228, Deferred Income, and #241, Guaranteed Deposits, are overstated at year-end by \$21,351. No control log or reconciliation was performed.
- b. Compensated leave liability is overstated by \$2,541, to reflect the employee leave balances at year-end times the current rate of pay. According to the APM, this balance should be updated annually prior to preparing the year-end financial reports.
- c. Account #250, Livestock Auction Consign, is understated at year-end by \$40,758. The Fair incurred expenses for JLA that were not recorded.

*Recommendations*

4. *The Fair should maintain a control log for deferred income and guaranteed deposits, and reconcile to the general ledger before closing the accounting records at year-end.*
5. *The Fair should adjust the compensated leave liability to reflect the liability at the end of the year based upon the current rate of pay and the actual leave balances.*
6. *The Fair must comply with GAAP and ensure all material liabilities are accrued at year-end.*

### **ACCOUNTS RECEIVABLE**

The Fair overstated approximately \$6,251 in accounts receivable at the end of the year. The Fair should reconcile the account at year-end to ensure all amounts owed the Fair are reflected within the general ledger. The accrual basis of accounting requires the recognition of revenue within the period incurred. If revenues have been incurred, but not yet received, an effort should be made to reasonably estimate and accrue the revenue for the amount to be received. This should be done prior to closing the accounting records and preparing the annual Statement of Operations.

*Recommendation*

7. *The Fair should always reconcile their control accounts to ensure all amounts owed the Fair are reflected within the general ledger.*

**FEDERAL LABOR STANDARDS ACT (FLSA) RECREATIONAL EXEMPTION**

The Fair did not calculate the FLSA exemption properly. The Fair used the financial statements as provided by CFSA and included in the board of directors minutes; however, the financial statements do not match the general ledger. Based upon the general ledger, the Fair lost their exemption for 2008 (38.21% exceeds 33.3%), and must pay overtime to temporary employees accordingly.

*Recommendations*

8. *The Fair should use the monthly revenue figures from the cash receipts register for their recreational exemption calculations.*
9. *The Fair should institute procedures to summarize receipts monthly by account number to aid in verification of the general ledger and in the preparation of the FLSA recreational exemption.*

**CASH ACCOUNTS**

An examination of the Fair's bank reconciliations for its operating and other bank accounts identified the following internal control weaknesses:

- a. The change funds are overstated by \$10,080 at year-end. Only three change funds are present at the end of the year, yet the general ledger has balances in eight accounts. The accounts should be reconciled at year-end to reflect the actual cash on hand.
- b. The Fair wrote checks for \$6,420 in December, but dated them January 2008. Several of these checks cleared the December bank statement. According to APM Section 2.82, all checks written should be recorded in the Cash Disbursement Register, and reconciled monthly.
- c. The Fair has approximately \$8,164 in checks from its various cash accounts that have been outstanding for more than a year. According to State Administrative Manual (SAM) Section 8042, uncashed checks for over one year can be reverted back to the appropriate cash accounts. Listing and tracking outstanding checks for more than one year complicates the reconciliation process and increases the chances for errors.

*Recommendations*

10. *The Fair should review asset accounts at year-end, and verify all cash accounts reconcile to cash on hand and bank statements.*
11. *The Fair should record checks in accordance with APM Section 2.82 and update the check register for checks on the day they are written.*
12. *The Fair should track outstanding checks from all accounts for one year. After one year, any outstanding checks should be returned to the source account via a general journal entry. In some instances a physical transfer of funds may be required to return checks to the source account.*

## ACCOUNTING FOR FIXED ASSETS

Our review of the property records revealed the following:

- a. The Fair did not capitalize the ATM machine that was purchased during 2007. Half of the cost is offset by future ATM revenues. The Fair should capitalize the asset at the full historical cost, and establish a deferred revenue for the future ATM revenue.
- b. The Fair capitalized barricades, which do not meet the capitalization criteria. CDFA reviewed the invoices and determined that the expenditure does not meet the capitalization criteria and therefore should be removed from the property records. The barricades should be removed from the property ledger, and be added to the non-monetary property list.
- c. The Fair did not comply with GAAP and establish an asset or long-term liability for the lease of a forklift. According to Statement of Financial Accounting Standards (SFAS) No. 13, a lease is considered a capital lease if it meets one of the four criteria: (i) transfer of ownership, (ii) bargain purchase option, (iii) present value of the minimum lease payments equal or greater than 90% of the fair market value of the leased property and (iv) the lease term is 75% or more of the estimated economic life of the leased property. The lease agreement indicates a lease term of 48 months. In general, the economic life for equipment, i.e., forklift, is five years. Since the lease term is 80% of the economic life, the forklift qualifies as a capital lease. The Fair has accounted for the lease as an operating lease by expensing the monthly payments. The Fair should capitalize the forklift and depreciate it accordingly, as well as recognize a long term liability for the future lease payments.

### *Recommendations*

- 13. The Fair should capitalize the ATM machine, by recording the full historical cost of the asset and establishing the deferred revenue for the future ATM revenues.*
- 14. The Fair should remove all items that do not meet the asset capitalization criteria established by the DOF. In the future, the Fair should ensure that only property with a value greater than \$5,000 and a useful life of at least one year is recorded in the fixed asset records.*
- 15. The Fair should comply with GAAP when accounting for all equipment leases. The Fair should obtain an amortization schedule from the lessor to establish the long-term liability of the unpaid obligation of the lease in Account #250, Long Term Debt, and capitalize the principal portion of the lease in Account #193, Equipment.*

## SALARY OVERPAYMENT

We have determined approximately \$1,845 salary overpayment from June 2007 to August 2008 for a permanent civil service employee, i.e., \$544 from June to December 2007 and \$1,301 from January to August 2008, as a result of the job classification change for which the employee received inappropriate merit salary adjustment (MSA) on July 1, 2007. By further analysis, effective June 1, 2007 this employee was hired under a Temporary

Authorization (TAU) appointment and effective June 15, 2007 this employee was appointed to permanent civil service position. Thus this employee is entitled to an MSA effective June 1, 2008, which is 12 months from the permanent civil service appointment date. The overpayment also resulted from the employee's Personnel Action Request (PAR) not reconciling to the Fair's payroll ledger, which shows the Fair compensated this employee in excess of the employee's actual salary as stated on the PAR.

*Recommendation*

*16. The Fair should establish an account receivable and collect the \$1,845 salary overpayment made to the employee.*

**MULTI YEAR CONTRACTS**

The Fair did not always obtain or maintain evidence of the Division of Fairs and Expositions (F&E) approval for multi-year contracts or any contract in excess of \$75,000. According to F&E's Contracts Manual, Section 1.15, Contract Review and Approval, all Fairs are required to obtain approval from F&E for all contracts exceeding \$75,000, including multi-year contracts that exceed this amount in totality.

*Recommendation*

*17. The Fair should obtain F&E's approval for any contracts greater than \$75,000, including multi-year contracts in excess of this amount.*

**JUNIOR LIVESTOCK AUCTION**

The Fair did not reconcile Account #251, Reserve for Junior Livestock Auction (JLA), to the corresponding bank Account #117, Cash-JLA. As a result, these accounts did not agree in the year-end financial records. According to the APM, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal Account #251, Reserve for JLA. This was a prior year audit finding

*Recommendation*

*18. The Fair should comply with the APM and ensure that Account #117, Cash – JLA, plus any JLA accounts receivable agrees to Account #251, Reserve for JLA, plus any JLA liabilities. Furthermore, this reconciliation should be done on an annual basis prior to the Fair closing its books.*



## NON-REPORTABLE CONDITIONS

### PAYROLL PROCEDURES

A review of the payroll procedures revealed the following deficiencies:

- a. The Fair allowed one employee to exceed the maximum leave accrual of 640 hours. This employee accrued approximately 719 vacation hours which exceeded the maximum leave accrual. The Department of Personnel Administration (DPA) limits the amount of hours that permanent employees may carry-over to the following calendar year to a maximum of 640 hours.
- b. The Fair allowed one employee to work 162 days in the calendar year 2007 which exceeded the 119-Day limitation per the state constitution. The Article VII Section 4(1) of the Constitution of the State of California limits the number of days worked by temporary employees. Furthermore, the APM Section 4.34, Temporary Employees, states temporary employees may only work a total of 119 days.
- c. A board member, preferably the board president, did not approve all 2007 timesheets of the Chief Executive Officer (CEO). According to the APM Section 4.1, Timecards and Leave Records, the Fair should maintain time cards for all employees to ensure compliance with labor laws related to overtime and paid leaves. They must be reviewed and signed by a supervisor and time cards should show hours worked and leave taken.
- d. The Fair made numerous errors recording leave earned and used from the timesheets to the leave record. Based on our review, we noted incorrect leave deductions; Compensated Time Off (CTO) cashed-out but not deducted; math errors for several permanent employees; incorrect 160 qualifying hours' calculation due to the inclusion of unpaid earned holiday credit; and math errors for permanent intermittent employees.

### *Recommendations*

*The Fair should ensure permanent employees do not maintain leave hours in excess of the required leave threshold per DPA.*

*The Fair should ensure they monitor the number of days worked by temporary employees to ensure that the 119-day limitation is not exceeded.*

*The Fair should improve its controls over timecard maintenance by reviewing and approving time worked of the CEO by the board president.*

*The Fair should review the mathematical accuracy of spreadsheets used to calculate employee leave balances.*

## OPPORTUNITY PURCHASING

The Fair made several opportunity purchases during 2007; however, the Fair does not always document that opportunity purchases meet or beat the State price. Opportunity purchases allow the DAA's to purchase commodities from any source provided it meets or beats that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the state-purchasing program does not sufficiently meet the documentation criteria. This was a prior year audit finding.

### *Recommendation*

*The Fair should follow the proper guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meets or beats the State Price.*

## MISCELLANEOUS INCOME

The Fair issued the Internal Revenue Service (IRS) Form 1099, Miscellaneous Income, to two civil service employees in the amount of \$1,000 and \$1,100 for additional compensation for services performed for the ice concession and as a superintendent, respectively, which is prohibited under Public Contract Code (PCC) Section 10410, Conflict of Interest. According to Section 10410, "no officer or employee in the state civil service ... shall engage in any employment, activity, or enterprise ... which the officer or employee receives compensation or in which the officer or employee has a financial interest and which is sponsored or funded, or sponsored and funded, by any state agency or department through or by a state contract unless the employment, activity, or enterprise is required as a condition of the officer's or employee's regular state employment. No officer or employee in the state civil service shall contract on his or her own individual behalf as an independent contractor with any state agency to provide services or goods." By our further analysis, we noted the Fair did not enter into an agreement for the additional services performed by the two civil service employees. Merely the issuance of Form 1099 and related supporting documents, i.e., check stubs, proves that these employees received additional compensation aside from regular payroll wages, which violates PCC Section 10410. The APM, Section 2.94, Conflict of Interest, further states "no employee may receive any compensation from the Fair other than the established payroll check."

Moreover, the Fair entered into a standard agreement with a sole proprietor or individual contractor who provided services for \$12,500. However, the Fair did not issue the required IRS Form 1099, Miscellaneous Income, for the sole proprietor who received compensation in excess of \$600. In addition, the APM, Section 5.3, The Fair's Liability, states "submit a 1099, MISC for every person who is not an employee and receives more than \$600 in fees, awards or prizes."

*Recommendations*

*The Fair should comply with the guidelines set forth per PCC section 10410 and the APM; hence the Fair should cease from engaging in any services beyond employees' duties that could result in additional compensation.*

*The Fair should ensure the issuance of the required IRS Form 1099 to any sole proprietor or individual contractor who received compensation in excess of \$600 for the services performed.*

**DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE**



October 18, 2008

Mr. Ron Shackelford, CPA  
Chief, Audit Office  
State of California  
Department of Food and Agriculture  
1220 N Street, Room 344  
Sacramento, CA 95814

Dear Ron:

The 7<sup>th</sup> D.A.A. is in receipt of management report 08-005. Please find below the response to the audit of financial statements of the 7<sup>th</sup> D.A.A., Monterey County Fair, for the year ended December 31, 2007.

#### **GENERAL LEDGER**

While working with California Fair Services Authority, the Fair will accrue transactions at the end of the year for income that has been earned and not yet received. The Fair will also accrue expenses that have been incurred but not yet paid.

The Fair is currently in the process of reviewing all asset and liability accounts and will reconcile account details to the general ledger balances at the end of the year prior to closing the books and preparing the annual Statement of Operations.

#### **LITIGATION SETTLEMENT**

The Fair neglected to accrue legal charges incurred and payable to the California State Attorney General's Office. All remaining fees at year end 2008 will be accrued as a material liability. An updated statement from the Attorney General's office has been requested.

#### **ACCRUED LIABILITIES**

The Fair does maintain a control log for deferred income and guaranteed deposits, and has reconciled to the general ledger prior to closing accounting records at year end. Prior year auditors instructed the Fair to defer all income formerly in the #241 account to the #228 account, therefore confusing year end accounting records. The Fair is aware of the proper procedure and will perform this at the end of 2008.

The Fair understands that compensated leave liability was overstated by \$2,541. This balance has been adjusted to reflect the liability at the end of the year based upon the current rate of pay and actual leave balances.

The Junior Livestock Auction Accounts have all been reconciled.

## **ACCOUNTS RECEIVABLE**

The Fair overstated approximately \$6,251 in accounts receivable at the end of the year. The Fair is currently in the process of reconciling all control accounts to ensure all amounts owed the Fair are reflected within the General Ledger.

## **FEDERAL LABOR STANDARDS ACT (FLSA) RECREATIONAL EXEMPTION**

The Fair understands that we did not calculate the FLSA exemption properly. In the future, the Fair will use monthly revenue figures from the cash receipts register for all FLSA calculations. In addition, the Fair will ensure that all financial statements match the general ledger to ensure accuracy.

## **CASH ACCOUNTS**

In conjunction with CFSA, the Fair is currently reconciling all change funds and reviewing all asset accounts. The Fair will also verify all cash accounts and ensure that these accounts reconcile to cash on hand and bank statements.

The Fair will be sure to record checks in accordance with the Accounting Procedures Manual (APM) and update the check register for checks on the day they are written.

The Fair has approximately \$8,164 in checks from various cash accounts that have been outstanding for greater than a year. The Fair has gone through the process of tracking outstanding checks and will return these checks to the source account via a general journal entry. If needed, a physical transfer of funds will be done to return checks to the source account.

## **ACCOUNTING FOR FIXED ASSETS**

The Fair has capitalized the ATM machine and recorded the full historical cost of the asset while establishing deferred revenue for future ATM revenues.

The Fair has removed the barricades and reviewed all items to ensure that said items meet capitalization criteria and belong on the property ledger as a fixed asset.

The Fair has purchased the forklift and capitalized the item while depreciating it accordingly. The Fair will also recognize the new CFSA equipment loan for the forklift as a long term liability for future payments.

## **SALARY OVERPAYMENT**

The Fair is currently working with CDFA Personnel on this matter. A Hiring Above Minimum Form was submitted to the appropriate Personnel Analyst prior to June 1, 2007 and was approved. Therefore, this item is still in question.

Should Personnel prove that there was a salary overpayment, the Fair will establish an accounts receivable and collect the \$1,845 salary overpayment made to the existing employee. *Please note that this employee is a current employee, not a former employee, as stated in the audit report.*

## **MULTI YEAR CONTRACTS**

The Fair submitted all contracts in excess of \$75,000 and all multi-year contracts to the Division of Fairs and Expositions for approval. Unfortunately, the time between submittal and approval was in excess of eight months and the Fair is still awaiting one approval.

## **JUNIOR LIVESTOCK AUCTION**

All Junior Livestock Auction accounts including the cash and reserve accounts have been reconciled.

Should you have any questions about the above, please contact me at 831-372-8106.

Sincerely,



Kelly Baldwin  
CEO/Manager



Courtney Boyles  
President, Board of Directors

Enclosure

Cc: Division of Fairs & Expositions

**CDFA EVALUATION OF RESPONSE**

A draft copy of this report was forwarded to the management of the 7th DAA, Monterey County Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report. We have corrected the misstatement of former employee in the salary overpayment section.

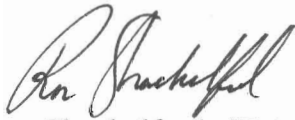
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### DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 16, 2008 and June 27, 2008. My staff met with management on June 27, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA  
Chief, Audit Office

June 27, 2008

**REPORT DISTRIBUTION**

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1	President, 7th DAA Board of Directors
1	Chief Executive Officer, 7th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office